

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01

PRS-01 /101 W

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P R 291033Z JUL 76

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC PRIORITY 4119

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

C O N F I D E N T I A L KUALA ALUMPUR 4353

E.O. 11652: GDS

TAGS: ENRG, MY

SUBJECT: PETROLEUM: PRIME MINISTER SETS DEADLINE FOR PETROLEUM

COMPQIESCUND PETRONAS TO REACH AGREEMENT OR FACE BUY-OUT.

GVWZWVWLL#KUALA LUMPUR 4195 AND 4244

1. BEGIN UNCLASSIFIED. SUMMARY. ON JULY 28, PRIME MINISTER
MET WITH SENIOR OFFICIALS OF OIL COMPANIES ENGAGED IN
UP-STREAM PETROLEUM ACTIVITIES IN MALAYSIA TO CONVEY SERIOUS
CONCERN OF GOM OVER FAILURE OF OIL COMPANIES AND PETRONAS
TO REACH AGREEMENT ON PRODUCTION SHARING CONTRACTS, TO
URGE PARTIES TO REACH AGREEMENT BEFORE NOVEMBER 15, AND
TO INFORM COMPANIES THAT CONTINUATION OF IMPASSE MAY LEAVE
GOM NO ALTERNATIVE BUT TO TAKE OVER RIGHTS OF COMPANIES
WITH PAYMENT OF ADEQUATE COMPENSATION, ALTHOUGH GOM PREFERS
THAT AGREEMENTS BE REACHED ON MUTUALLY ACCEPTABLE TERMS.
END SUMMARY.

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2. IN RESPONSE TO INVITATION OF PRIME MINISTER (KUALA LUMPUR 4195 AND 4244) SENIOR OFFICIALS OF PETROLEUM COMPANIES ENGAGED IN EXPLORATION AND/OR PRODUCTION IN MALAYSIA (EXXON, SHELL INTERNATIONAL, CONTINENTAL, AQUITAINE PETROLEUM AND TEISEKI) MET WITH PM ON JULY 28. THIRTEEN OFFICIALS OF COMPANIES PRESENT. PM ACCOMPANIED BY MINISTER RAZALEIGH, MINISTER CHONG, ABDUL KADIR SHAMSUDDIN AND APPROXIMATELY THIRTY OTHER GOM OFFICIALS.

3. MEETING OPENED WITH PM READING PREPARED STATEMENT (TEXT TRANSMITTED SEPTTEL) IN WHICH HE REFERRED TO NEW OIL AND GAS FINDS WHICH OPEN NEW AVENUES FOR PRIVATE SECTOR PARTICIPATION, INFORMED COMPANIES OF SERIOUS CONCERN OF GOM OVER FAILURE OF COMPANIES TO REACH AGREEMENT WITH PETRONALS ON PRODUCTION SHARING CONTRACTS ON MUTUALLY ACCEPTABLE TERMS, NOTED THAT PETROLEUM DEVELOPMENT ACT ZQOUR ENACTED TO GIVE MALAYSIA EFFECTIVE CONTROL OF PETROLEUM AND NATURAL GAS RESOURCES, OBSERVED THAT PRESENT WIDE DIVERGENCE OF POSITIONS DOES NOT INDICATE EARLY AND SATISFACTORY CONCLUSION OF NEGOTIATIONS, REFERRED TO INTERIM AGREEMENTS WHICH PERMITTED OPERATIONS AND NEGOTIATIONS TO CONTINUE, RECOGNIZED IMPORTANT ROLE OF PRIVATE SECTOR BUT BOTTLED NATIONAL ASPIRATION TO HAVE EFFECTIVE CONTROL OF PETROLEUM INDUSTRY THROUGH STATE PARTICIPATION, STATED THAT FAILURE TO BREAK NEGOTIATIONS IMPASSE MAY LEAVE GOM NO ALTERNATIVE BUT TO TAKE OVER "RIGHTS OF COMPANIES WITH PAYMENT OF ADEQUATE COMPENSATION" AS SEVERAL NATIONS HAVE DONE AND WHICH IS SOVEREIGN RIGHT OF GOVERNMENT, AND CLOSED BY OBSERVING THAT GOM PREFERS AGREEMENT TO BE REACHED RATHER THAN TAKE OVER BUT THAT IN PRESENT CASE OF NON-RENEWABLE RESOURCE NATIONAL INTEREST AND ASPIRATIONS MUST BE MET IN PRODUCTION SHARING AGREEMENTS. END UNCLASSIFIED.

4. BEGIN CONFIDENTIAL. ACCORDING INDUSTRY SOURCE, PM THEN SPOKE INFORMALLY SAYING THAT GOM UNDER CONSIDERABLE PUBLIC PRESSURE FOR AGREEMENT TO BE REACHED AND THAT AGREEMENT SHOULD BE REACHED NO LATER THAN NOVEMBER 15, 1976. PM SAID "WE HAVE A REASON FOR THIS" BUT DID NOT ELABORATE. COMPANIES STATED THAT TERMS THUS FAR PRESENTED BY PETRONALS UNACCEPTABLE, NOT PROVIDING SUFFICIENT ECONOMIC RETURNS, AND THAT THEY READY AND WILLING PROCEED WITH NEGOTIATIONS. PM, WHILE CONFIDENTIAL

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NOT CRITICAL OF PETRONAS, SUGGESTED THAT COMPANIES AND PETRONAS WOULD HAVE TO BE MORE FORTHCOMING FOR NEGOTIATIONS TO SUCCEED. PM ALSO SAID THAT IF IMPASSE AGAIN REACHED, HE WOULD BE AVAILABLE.

5. AFTER MEETING, STATEMENT ISSUED BY PM'S OFFICE LISTING PARTICIPANTS AND INCLUDING FOLLOWING SUBSTANTIVE PARAGRAPH:
QUOTE: THERE WAS A FRANK AND FRIENDLY EXCHANGE OF VIEWS

BETWEEN THEM AND THE PRIME MINISTER. DATUK QSSEIN ONN
EXPRESSED THE HOPE THAT THE PRODUCING OIL COMPANIES WOULD
RESTART THEIR NEGOTIATIONS WITH PETRONAAS WITH REGARD TO THE
PRODUCTION SHARING ARRANGEMENTS AND OTHER MATTERS AND REACH
AGREEMENT AS EARLY AS POSSIBLE BUT NOT LATER THAN THE 15TH
OF NOVEMBER THIS YEAR. THE PRIME MINISTER IMPRESSED UPON
THE REPRESENTATIVES OF THE OIL COMPANIES THAT THE GOVERNMENT
HAD RESOLVED AND WAS EARNES TO BREAK THE IMPASSE IN REACHING
AGREEMENT. THE PRIME MINISTER STRESSED THAT THE GOVERNMENT
MIGHT HAVE NO ALTERNATIVE BUT TO TAKE OVER THE RIGHTS OF
THE COMPANIES WITH PAYMENT OF ADEQUATE COMPENSATION. END QUOTE.

6. EXXON MEETING WITH PM THIS AFTERNOON FOR SUBSTANTIVE
DISCUSSION OF ITS SITUATION.

7. COMMENT: COMPANIES ARE GENERALLY PLEASED THAT PM IS
TAKING DIRECT INTEREST IN NEGOTIATIONS BUT SURPRISED AND
CONCERNED WITH MENTION OF GOM TAKEOVER OF RIGHTS OF VMMPANIES
WITH ADEQUATE COMPENSATION. END CONFIDENTIAL
UNDERHILL

NOTE: # AS RECEIVED.

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